

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 13, 2004



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Jackson County Sheriff's Settlement - 2003 Taxes as of July 13, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Jackson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 13, 2004

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

July 13, 2004

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Jackson County Sheriff as of July 13, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,094,283 for the districts for 2003 taxes, retaining commissions of \$86,518 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,049,684 to the districts for 2003 Taxes. Taxes of \$3,622 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Distribute Interest Earned In The Tax Account On A Monthly Basis
- Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court And Sheriff Fee Account
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Not Commingle Funds Between His Accounts

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Jackson County Sheriff's Settlement - 2003 Taxes as of July 13, 2004. This tax settlement is the responsibility of the Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Jackson County Sheriff's taxes charged, credited, and paid as of July 13, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earned In The Tax Account On A Monthly Basis
- Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court And Sheriff Fee Account
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Not Commingle Funds Between His Accounts

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

July 13, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 132,611	\$ 336,651	\$ 1,031,826	\$ 241,607
Tangible Personal Property	8,025	24,426	56,393	49,654
Intangible Personal Property				8,518
Fire Protection	2,248			
Omitted Limestone, Sand, and Mineral Reserves	29	73	225	53
Franchise Corporation	29,012	85,601	207,368	
Additional Billings	47	116	363	104
Limestone, Sand, and Mineral Reserves	185	468	1,438	337
Penalties	1,781	4,486	13,685	3,444
Adjusted to Sheriff's Receipt	(102)	(134)	(435)	(121)
Gross Chargeable to Sheriff	<u>\$ 173,836</u>	<u>\$ 451,687</u>	<u>\$ 1,310,863</u>	<u>\$ 303,596</u>
<u>Credits</u>				
Exonerations	\$ 1,593	\$ 4,024	\$ 12,354	\$ 3,054
Discounts	1,650	4,172	12,537	3,576
Delinquents:				
Real Estate	7,572	19,043	58,454	13,687
Tangible Personal Property	209	637	1,470	909
Intangible Personal Property				71
Uncollected Franchise	<u>63</u>	<u>187</u>	<u>437</u>	
Total Credits	<u>\$ 11,087</u>	<u>\$ 28,063</u>	<u>\$ 85,252</u>	<u>\$ 21,297</u>
Taxes Collected	\$ 162,749	\$ 423,624	\$ 1,225,611	\$ 282,299
Less: Commissions *	<u>7,204</u>	<u>18,005</u>	<u>49,024</u>	<u>12,285</u>
Taxes Due	\$ 155,545	\$ 405,619	\$ 1,176,587	\$ 270,014
Taxes Paid	154,948	403,935	1,172,320	269,633
Refunds (Current and Prior Year)	<u>227</u>	<u>564</u>	<u>2,137</u>	<u>379</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 370</u>	<u>\$ 1,120</u>	<u>\$ 2,130</u>	<u>\$ 2</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
July 13, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	858,672
4% on	\$	1,225,611

** Special Taxing Districts:

Library District	\$	562
Health District		355
Extension District		201
Soil Conservation District		<u>2</u>
Due Districts	\$	<u><u>1,120</u></u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

July 13, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 13, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
July 13, 2004
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2003 through June 4, 2004.

Note 4. Interest Income

The Jackson County Sheriff earned \$629 as interest income on 2003 taxes. As of November 24, 2004, the Sheriff owes \$353 in interest to the school district and \$275 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$14,946 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Jackson County Sheriff collected \$2,040 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of November 24, 2004, the Sheriff owes \$2,040 in total for advertising costs to the county and in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 13, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned In The Tax Account On A Monthly Basis

The Sheriff should distribute interest earned on the tax account monthly. KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's Fee Account. During the 2003 Tax Collections, the Sheriff earned interest of \$628.52 on his 2003 Tax Account. However, the Sheriff did not pay the interest to the Board of Education or the Fee Account on a monthly basis. As of July 13, 2004, the Sheriff owes the School District \$353.11 and the Fee Account \$275.41. We recommend the Sheriff comply with KRS 134.140(3)(b) and KRS 134.140(3)(d) by paying the amount of interest due to the School and the Fee Account on a monthly basis.

Sheriff's Response:

None

Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court And Sheriff Fee Account

The Sheriff did not remit advertising costs and advertising fees to the fiscal court and Sheriff's fee account. The Sheriff reported collections of \$2,040 in advertising costs and advertising fees from taxpayers for the 2003 property taxes. The auditor was unable to determine the amount of advertising costs due to the Fiscal Court and advertising fees due to the Sheriff's Fee Account. In accordance with KRS 134.440, when the Fiscal Court has previously paid this expense the advertising costs recovered from the taxpayer should be subsequently paid to the county treasurer. We recommend that the Sheriff determine the portion of the \$2,040 of reported advertising costs and advertising fees that are due to the Fiscal Court and Sheriff's Fee Account and pay the amounts due accordingly.

Sheriff's Response

None

The Sheriff Should Not Commingle Funds Between His Accounts

During the 2003 Tax Year the Sheriff transferred a total of \$61,526 of tax monies to the Payroll Fund, the Citizens Bank, the 2003 Fee Account, and the 2004 Fee Account. Of this amount \$55,879 was reimbursed to the 2003 Tax Account from various sources leaving a remaining balance of \$5,647 due to the 2003 Tax Account from the 2004 Fee Account. The Sheriff also deposited a \$200 Circuit Clerk payment into the 2003 Tax Account that needs to be redeposited into the 2004 Fee Account. We recommend that the Sheriff reimburse the 2003 Tax Account and the 2004 Fee Account accordingly and that in the future the Sheriff avoid commingling of funds between his different accounts.

Sheriff's Response:

None

JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS
As of July 13, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks An Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the diversity of operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned the bookkeepers to perform all of the accounting functions in the office. We recommend that the Sheriff periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1.) Comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2.) Having deposits compared to the receipts ledger and bank statements; and 3.) Comparing checks to monthly tax reports.

Sheriff's Response:

None

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$144,046 To Protect Deposits

This comment has been corrected.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This comment is repeated in the current year audit.

Lacks Adequate Segregation Of Duties

This comment is repeated in the current year audit.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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The Honorable Tommy Slone, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Jackson County Sheriff's Settlement - 2003 Taxes as of July 13, 2004, and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's Settlement - 2003 Taxes as of July 13, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned In The Tax Account On A Monthly Basis
- Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court And Sheriff Fee Account
- The Sheriff Should Not Commingle Funds Between His Accounts

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

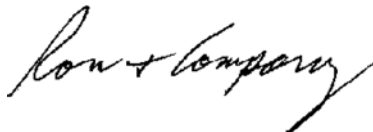
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

